

Message Text

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TO USMISSION OECD PARIS IMMEDIATE

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TAGS: ECON, OECD

SUBJECT: PROPOSED GROWTH STUDY BY DISTINGUISHED ECONOMISTS
GROUP

REF: OECD PARIS 17485

1. WE ARE GENERALLY PLEASED WITH THE SECRETARY GENERAL'S
NOTE C(75)116 AND ITS ANNEX CONTAINED REFTL PROPOSING
ESTABLISHMENT OF GROUP OF INDEPENDENT EXPERTS TO SUGGEST
STRATEGIES FOR ACHIEVEMENT OF NON-INFLATIONARY GROWTH.
AS MISSION IS AWARE, WE ATTACH CONSIDERABLE IMPORTANCE TO
SUCH A STUDY AS PROPOSED BY SECRETARY KISSINGER IN THIS
CRUCIAL AREA OF POLICY CONCERN.

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FOLLOWING ARE OUR SPECIFIC COMMENTS:

2. PARA 2 IN ANNEX ON GENERAL CONSIDERATIONS DESCRIBING
NEW PROBLEMS FACING ECONOMIES OF OECD COUNTRIES SEEMS CAST

IN TERMS WHICH MAY BE TOO LIMITING, AND THEY COULD BE BROADENED. FOR EXAMPLE:

A. INFLATION. THE PROBLEM OF INFLATION IS NATURALLY NOT LIMITED TO ITS EFFECTS IN AREAS SUCH AS INCOME DISTRIBUTION AND RESOURCE ALLOCATION. OF PRIMARY CONCERN OF COURSE ARE

THE PROBLEMS WHICH HAVE CAUSED INFLATION IN THE FIRST PLACE. RESULTING UNDER-UTILIZATION OF CAPACITY MAY ALSO PUT DIFFERENT BURDENS ON DEVELOPMENT OF BOTH HUMAN AND PHYSICAL CAPITAL. (SEE ALSO PARA C BELOW ON INVESTMENT.)

B. PUBLIC EXPENDITURES. WHILE THERE MAY BE PROBLEMS RELATED TO PRESSURES FOR CONTINUED EXPANSION OF PUBLIC SERVICES, THERE MAY ALSO BE RISKS PRESENTED BY PRESSURES TO CUT BACK PARTS OF THE PUBLIC SECTOR AND PROBLEMS IN MAKING THE COMPOSITION OF PUBLIC EXPENDITURES SUFFICIENTLY FLEXIBLE, BOTH UPWARD AND DOWNWARD, TO MEET CHANGING NEEDS.

C. INVESTMENT. INVESTMENT PROBLEMS RELATE BOTH TO OVERALL RATES OF INVESTMENT AS WELL AS CHANGES IN THE INVESTMENT NEEDS OF DIFFERENT SECTORS SUCH AS ENERGY AND OTHER SECTORS, POSSIBLY INCLUDING FOOD PRODUCTION. IN ADDITION, THERE MAY HAVE BEEN STRUCTURAL CHANGES WHICH HAVE LED TO CHANGES IN THE RATIO OF HUMAN AND PHYSICAL RESOURCES USED IN PRODUCTION, SUCH THAT WE MAY GET IGNITION POINTS FOR INFLATION AT DIFFERENT LEVELS OF RESOURCE UTILIZATION CURRENTLY AND IN THE FUTURE THAN WOULD BE INDICATED BY PAST EXPERIENCE. FOR EXAMPLE, HIGHER RATES OF INVESTMENT MAY BE REQUIRED TO MAINTAIN THE SAME LEVEL OF EMPLOYMENT AND OUTPUT WITHOUT INFLATION IN A GIVEN SECTOR THAN IN THE PAST.

D. TERMS OF TRADE. THE PROBLEM OF SHIFTING TERMS OF TRADE
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SHOULD NOT BE MADE INTO A GENERALIZED DC/LDC MATTER. THE PROBLEM RELATES TO ALL SIZEABLE TERMS OF TRADE SHIFTS, PARTICULARLY THE SHIFTS ARISING FROM OIL PRICE INCREASES.

3. IN REGARD TO PARA 3 OF ANNEX I, A NEW AND HARD LOOK SHOULD BE TAKEN AT THE RECORD AND ROLE OF CONVENTIONAL POLICY INSTRUMENTS SUCH AS FISCAL, MONETARY, AND INCOME POLICIES. WHILE NOT IGNORING THE POWER OF THESE INSTRUMENTS, THE STUDY COULD ALSO LOOK BEYOND THEM TO NEW AND IMAGINATIVE APPROACHES TO POLICY PROBLEMS IF A REALISTIC APPRAISAL OF THE RESULTS OF THE USE OF CONVENTIONAL INSTRUMENTS SUGGESTS THAT MAJOR PROBLEMS WOULD STILL REMAIN UNRESOLVED.

4. US REP SHOULD SEEK CLEAR UNDERSTANDING THAT STAFFING
ARRANGEMENTS FOR SUPPORT OF THE GROUP, -
-- SHOULD BE WORKED
OUT IN A MANNER THAT IS MUTUALLY SATISFACTORY TO THE
CHAIRMAN OF THE ECONOMISTS GROUP AND TO THE SECRETARIAT.
WE DO NOT WISH TO LIMIT POSSIBLE USES OF OUTSIDE EXPERTS

OR CONSULTANTS. (FYI. WE WOULD NOT WANT SECRETARIAT
RESOURCES DIVERTED FROM IMPORTANT COMPLIMENTARY BUT
SEPARATE WORK OF EPC'S WP-2 ON GROWTH. LIMITED TIME SPAN
OF WORK BY ECONOMISTS GROUP WOULD ARGUE FOR HIRING TEM-
PORARY CONSULTANTS FOR ITS STAFF WORK RATHER THAN JUSTI-
FYING PERMANENT INCREASE IN SECRETARIAT RESOURCES. END
FYI.) IN THIS REGARD, LAST SENTENCE OF PARA 9, ANNEX
ONE, C(75)116 MIGHT BE MODIFIED TO READ ALONG THE LINES
"THE GROUP WOULD DRAW ON THE SECRETARIAT FOR SERVICING
AND FOR ANALYTICAL WORK AND MAY ALSO WISH TO USE THE
SERVICES OF OUTSIDE EXPERTS".

5. WE AGREE THAT TO ACHIEVE MAXIMUM FLEXIBILITY AND
SPEED IN ADDRESSING POLICY ISSUES THE SIZE OF THE GROUP
OF EXPERTS SHOULD BE LIMITED TO FIVE TO SEVEN MEMBERS
AS SUGGESTED PARA 9 REFTEL.

6. IN REGARD TO THE WORK SCHEDULE WE ARE AGREEABLE TO
THE SUBMISSION OF FINAL REPORT AT THE END OF 1976 OR
EARLY 1977. HOWEVER, WE BELIEVE IT WOULD BE USEFUL FOR
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MINISTERS TO BE ABLE TO DISCUSS THE POLICY QUESTIONS
INVOLVED AT THE NEXT MEETING OF OECD COUNCIL AT
MINISTERIAL LEVEL IN THE LATE SPRING OF 1976. US REP
SHOULD THEREFORE SUGGEST THAT SOME PROGRESS REPORT
BY THE GROUP OF EXPERTS MIGHT BE MADE FOR THE CONSIDERA-
TION OF MINISTERS AT THEIR NEXT MEETING IN THE SPRING.

7. PROFESSOR PAUL MCCrackEN DOES NOT OBJECT IF THE
SECRETARY-GENERAL WISHES TO MENTION HIS NAME INFORMALLY
AT THE JULY 10 COUNCIL MEETING AS A POSSIBLE CHAIRMAN OF
THE GROUP. INGERSOLL

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